

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

REPORT OF AUDIT  
Year Ended June 30, 2003

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## INDEPENDENT AUDITOR'S REPORT

August 27, 2003

Members of the Board of Education  
Corbin Independent School District  
Corbin, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the Corbin Independent School District, as of and for the year ended June 30, 2003, which collectively comprises the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corbin Independent School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the Corbin Independent School District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, as of June 30, 2003. This results in a change in format and content of the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the Corbin Independent School District, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2003, on our consideration of Corbin Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corbin Independent School District's basic financial statements. The additional information shown on pages 35 through 52 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 43 through 45 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Certified Public Accountants

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

As management of the Corbin Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**SUPERINTENDENTS' REVIEW OF THE YEAR**

- ACT test scores for 2003 Corbin High School seniors exceeded the national average by 0.5 points and the state average by 1.1 points.
- 2001-2002 CATS test placed the District's scoring in the top 9.6% of the state.
- Teachers are provided greater leadership at all schools in serving as "Team Leaders" at all grade levels and subject areas in the school district.
- The District increased its focus on student achievement with the employment of Curriculum and Instruction Specialists paid from grant funds.
- The focus on improved technology services was increased with the employment of an additional technician for the department.
- Title IX identified serious problems with the girls' athletic facilities in softball and basketball. The School Board, with support from the Redhound Varsity Club, is nearing completion of the softball complex that will match the quality of the District's baseball complex. Major site work could not have been completed without the donated assistance of Whayne Supply Company.
- Improvements are planned in the near future for the girls' basketball locker room to equal the boys' locker area.
- Under construction, near the commons area at Corbin High School, are new restrooms with completion expected in the fall of 2003.
- A combination music and green room for the Corbin High School auditorium is under renovation in the former woodshop area, completion expected by December 2003.
- Work has begun on major improvements in the 600 seat auditorium at the Corbin High School. Improvements will include new lighting; new sound equipment; platform in the rear of the auditorium with areas for projectors, sound control, and light control; painting; movie screen; carpet for steps; and other improvements. Completion is not expected until spring 2004.
- Site work was completed for building six tennis courts on the Corbin High School campus by donated services from the Whayne Supply Company.
- The District has a quality outdoor education classroom at Corbin High School that was built by students under the direction of teacher Ann Hale. Direct access to the facility was made possible with the development of a gravel road around the track and baseball field.
- Corbin High School and Corbin Middle School are working together in the "Making Schools Work" program and both schools have received recognition for presenting programs at national conferences.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

- Student enrollment in Corbin schools has continued to increase during the 2002-2003 school year and this assisted in keeping our district financially sound during troubling state budget shortfalls.
- Several cost saving measures were implemented to avoid shortfalls in state funding allocations to the district.
- Corbin High School was selected by the Kentucky Department of Education as one of five districts to explore excellence in education at the high school level.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$1,484,496.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel. This resulted in several economies due to changed management strategies.
- Following the completion of the District's long-range plan for facilities, the Board authorized a \$74,188 transfer to the construction fund.
- The board issued refunding bonds in the amount of \$3,380,000.
- Due to the decline of interest rates, earnings on investments fell \$36,258; that is a 43.1 percent decrease.
- During fiscal 2003, the District felt little impact of the declining economy other than the reduction in interest income. However, we anticipate flat to falling revenue in fiscal year 2004.
- The General Fund had \$11,195,365 in revenue, which primarily consisted of the state program (SEEK) and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there were \$10,754,219 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$330,000 during the current fiscal year.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and management of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 and 9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds are vending and food service operations, day care operations and community education. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 13 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 34 of this report.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,936,888 as of June 30, 2003. This is a current year net increase of \$335,329.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, general equipment and construction in progress), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.



CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

**Net Assets for the period ending June 30, 2003**

The current year's financial statements are dramatically different from past years as a result of implementing GASB 34. Attempting to compare this year's data with last year would be misleading to the reader; however, the District looks forward to offering comparative data in the future.

Current assets	\$ 1,924,207
Noncurrent assets	<u>7,352,874</u>
Total Assets	<u>\$ 9,277,081</u>
Current liabilities	\$ 1,007,487
Noncurrent liabilities	<u>5,332,706</u>
Total Liabilities	<u>\$ 6,340,193</u>
Net assets	
Investment in capital assets, net of related debt	\$ 1,492,874
Restricted	174,172
Unrestricted	<u>1,269,842</u>
Total Net Assets	<u>\$ 2,936,888</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets:

The district implemented GASB 34 and recorded fixed assets in the amount of \$7,589,910 and debt in the amount of \$6,190,000 for the first time.

**Comments on Budget Comparisons**

- The District's total revenues for the fiscal year ended June 30, 2003, exclusive of bond proceeds, were \$16,127,301.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$2,543,965 more than budget or 29.4%. This is due to recording on-behalf payments made by the State of Kentucky of \$2,019,972 that was not budgeted. When this is eliminated, revenues compared to budget were \$523,993 or 6.06% more than anticipated.
- The total cost of all general fund programs and services was \$10,754,219 including depreciation.
- General fund budget expenditures to actual varied significantly in district administrative support (\$590,095 under budget). This resulted from the board establishing a contingency totaling \$540,661. Instructional expenditures were over budget by \$1,659,335 also due to on-behalf state payments, which were not budgeted. Excluding these items, which was \$1,778,373, instructional expenses were under budget by \$119,038. Additionally, plant operation and management closed with a budget surplus of \$95,782. When on-behalf payments of \$75,500 were excluded, plant operation and management had a budget surplus of \$171,282. Student transportation ended with a budget deficit of \$85,565. Excluding on-behalf payments of \$54,360 the budget deficit was only \$31,205.

**REVENUES AND EXPENSES SUMMARY**

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2003.

	<u>Amount</u>	<u>Percent</u>
Revenues:		
Local revenue sources	\$ 2,987,444	18.52%
State revenue sources	11,003,527	68.23
Federal revenues	<u>2,136,330</u>	<u>13.25</u>
Total revenues	<u>\$ 16,127,301</u>	<u>100.00%</u>

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2003

	<u>Amount</u>	<u>Percent</u>
Expenses:		
Instruction	\$ 10,423,394	66.00%
Student support services	225,863	1.43
Instructional support	233,983	1.48
District administration	650,536	4.12
School administration	655,520	4.15
Business support	99,595	.63
Plant operation and management	983,077	6.23
Student transportation	480,452	3.04
Central office support	95,516	.60
Community support	148,505	.94
Food service	949,877	6.01
Day care	380,855	2.41
Community education	128	.01
Other	33,520	.21
Other instructional services	19,766	.13
Interest	411,385	2.61
Total expenses	<u>\$ 15,791,972</u>	<u>100.00%</u>
Revenues in excess of expenses	<u>\$ 335,329</u>	

**BUDGETARY IMPLICATIONS**

In Kentucky, the public school fiscal year is July 1 to June 30; other programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2.00% contingency. The District adopted a budget with \$540,661 in contingency (4.83%).

Questions regarding this report should be directed to the Superintendent (606) 528-1303 or to Alicia Logan, Director of Financial Services (606) 528-1303 or by mail at 108 Roy Kidd Avenue, Corbin, KY 40701.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF NET ASSETS  
June 30, 2003

<u>ASSETS</u>	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 1,359,968	\$ (93,152)	\$ 1,266,816
Accounts receivable:			
Taxes – current	71,520	-	71,520
Accounts receivable	3,939	25,039	28,978
Intergovernmental – state	104,687	-	104,687
Intergovernmental – federal	173,897	129,858	303,755
Materials and supplies inventory	-	32,082	32,082
Prepaid expenses	116,369	-	116,369
Total current assets	<u>1,830,380</u>	<u>93,827</u>	<u>1,924,207</u>
<b>NONCURRENT ASSETS</b>			
Capital assets, net	<u>7,274,626</u>	<u>78,248</u>	<u>7,352,874</u>
Total noncurrent assets	<u>7,274,626</u>	<u>78,248</u>	<u>7,352,874</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 9,105,006</b></u>	<u><b>\$ 172,075</b></u>	<u><b>\$ 9,277,081</b></u>
<u><b>LIABILITIES AND NET ASSETS</b></u>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 26,214	\$ 6,955	\$ 33,169
Deferred revenue	157,993	-	157,993
Current portion of bond obligations	595,000	-	595,000
Current portion of accrued sick leave	221,325	-	221,325
Total current liabilities	<u>1,000,532</u>	<u>6,955</u>	<u>1,007,487</u>
<b>NONCURRENT LIABILITIES</b>			
Noncurrent portion of bond obligations	5,265,000	-	5,265,000
Noncurrent portion of accrued sick leave	67,706	-	67,706
Total noncurrent liabilities	<u>5,332,706</u>	<u>-</u>	<u>5,332,706</u>
<b>TOTAL LIABILITIES</b>	<u>6,333,238</u>	<u>6,955</u>	<u>6,340,193</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,414,626	78,248	1,492,874
Restricted for:			
Accrued sick leave	68,084	-	68,084
Debt service	40,034	-	40,034
Capital projects	66,054	-	66,054
Unrestricted	1,182,970	86,872	1,269,842
TOTAL NET ASSETS	<u>2,771,768</u>	<u>165,120</u>	<u>2,936,888</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 9,105,006</b></u>	<u><b>\$ 172,075</b></u>	<u><b>\$ 9,277,081</b></u>

The accompanying notes are an integral part of these financial statements.



CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

BALANCE SHEETS  
GOVERNMENTAL FUNDS  
June 30, 2003

	<u>General Fund</u>	<u>Special Revenue</u>
<b>ASSETS AND RESOURCES</b>		
Cash and cash equivalents	\$ 1,340,287	\$ (88,496)
Accounts receivable:		
Taxes – current	71,520	-
Accounts receivable	294	3,645
Intergovernmental – state	35,000	69,687
Intergovernmental – federal	-	173,897
Prepaid expenses	116,369	-
<b>TOTAL ASSETS AND RESOURCES</b>	<u><b>\$ 1,563,470</b></u>	<u><b>\$ 158,733</b></u>
<b>LIABILITIES</b>		
Accounts payable	\$ 23,385	\$ 740
Deferred revenue	-	157,993
<b>TOTAL LIABILITIES</b>	<u><b>23,385</b></u>	<u><b>158,733</b></u>
<b>FUND BALANCES</b>		
Reserved:		
Accrued sick leave	68,084	-
Unreserved, reported in:		
General fund	1,472,001	-
Special revenue fund	-	-
Debt service fund	-	-
Capital projects fund	-	-
<b>TOTAL FUND BALANCES</b>	<u><b>1,540,085</b></u>	<u><b>-</b></u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><b>\$ 1,563,470</b></u>	<u><b>\$ 158,733</b></u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 108,177	\$ 1,359,968
-	71,520
-	3,939
-	104,687
-	173,897
-	116,369
<u>\$ 108,177</u>	<u>\$ 1,830,380</u>

\$ 2,089	\$ 26,214
-	157,993
<u>2,089</u>	<u>184,207</u>

-	68,084
-	1,472,001
-	-
40,034	40,034
<u>66,054</u>	<u>66,054</u>
<u>106,088</u>	<u>1,646,173</u>
<u>\$ 108,177</u>	<u>\$ 1,830,380</u>

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS  
June 30, 2003

<b>Total Fund Balances per fund financial statements</b>	<b>\$ 1,646,173</b>
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, but they are reported in the statement of net assets	7,274,626
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Certain liabilities, such as bonds payable and the long-term portion of accrued sick leave are not reported in this fund financial statement because they are not due and payable in the current period, but they are presented in the statement of net assets:

Accrued sick leave	\$ 289,031	
Bonds payable	<u>5,860,000</u>	<u>(6,149,031)</u>

<b>Total Net Assets for Governmental Activities</b>	<b><u>\$ 2,771,768</u></b>
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The accompanying notes are an integral part of these financial statements.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2003

	<u>General Fund</u>	<u>Special Revenue</u>
REVENUES		
From local sources:		
Taxes		
Property	\$ 1,085,061	\$ -
Motor vehicle	272,739	-
Utilities	576,784	-
Tuition and fees	6,706	-
Earnings on investments	38,282	192
Other local revenues	23,240	3,208
Intergovernmental – state	9,192,553	1,242,787
Intergovernmental – federal	-	1,590,238
TOTAL REVENUES	<u>11,195,365</u>	<u>2,836,425</u>
EXPENDITURES		
Instruction	7,398,194	2,519,922
Support services:		
Student	193,767	30,260
Instructional staff	213,453	-
District administration	654,987	24,032
School administration	548,241	100,000
Business	99,595	-
Plant operation and management	983,869	-
Student transportation	471,452	29,847
Central office	95,395	-
Food service	75,500	-
Other instructional	19,766	-
Facilities acquisition and construction	-	-
Community services activities	-	147,352
Bond issuance costs	-	-
Payment of bonds	-	-
Payment of interest	-	-
TOTAL EXPENDITURES	<u>10,754,219</u>	<u>2,851,413</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>441,146</u>	<u>(14,988)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of bonds	-	-
Operating transfers in	-	14,988
Operating transfers out	(87,768)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(87,768)</u>	<u>14,988</u>
NET CHANGE IN FUND BALANCES	353,378	-
FUND BALANCES, JULY 1, 2002	<u>1,186,707</u>	<u>-</u>
FUND BALANCES, JUNE 30, 2003	<u>\$ 1,540,085</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.



Other Governmental Funds	Total Governmental Funds
\$ 197,636	\$ 1,282,697
-	272,739
-	576,784
-	6,706
9,913	48,387
-	26,448
599,784	11,035,124
-	<u>1,590,238</u>
<u>807,333</u>	<u>14,839,123</u>
-	9,918,116
-	224,027
-	213,453
-	679,019
-	648,241
-	99,595
-	983,869
-	501,299
-	95,395
-	75,500
-	19,766
103,085	103,085
-	147,352
33,520	33,520
3,710,000	3,710,000
409,499	409,499
<u>4,256,104</u>	<u>17,861,736</u>
<u>(3,448,771)</u>	<u>(3,022,613)</u>
3,346,507	3,346,507
797,879	812,867
<u>(725,099)</u>	<u>(812,867)</u>
<u>3,419,287</u>	<u>3,346,507</u>
(29,484)	323,894
<u>135,572</u>	<u>1,322,279</u>
<u>\$ 106,088</u>	<u>\$ 1,646,173</u>

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2003

<b>Net Change In Total Fund Balances – per fund financial statements</b>	<b>\$ 323,894</b>
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Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their estimated  
useful lives as depreciation expense. This is the amount by which depreciation  
exceeded capital outlays in the current period:

Depreciation	\$(625,378)	
Capital outlays	<u>310,094</u>	(315,284)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and does not result in an expense in the statement of activities.	3,710,000
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In the statement of activities, bond proceeds are considered an increase in liabilities, whereas in governmental funds, they are reported as other financing sources	(3,346,507)
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In the statement of activities, the amount received from the Kentucky School Facility Construction Commission for the payment of bonds is considered an offset to the bond principal payments in the statement of net assets but the proceeds are considered as revenue in the governmental funds	(31,607)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued sick leave	67,706
Bond call premium paid in excess of proceeds	<u>1,886</u>
	<u>(69,592)</u>

<b>Change In Net Assets of Governmental Activities</b>	<b><u>\$ 270,904</u></b>
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The accompanying notes are an integral part of these financial statements.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
GENERAL FUND  
Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From local sources:				
Taxes				
Property	\$ 975,000	\$ 975,000	\$ 1,085,061	\$ 110,061
Motor vehicle	210,000	210,000	272,739	62,739
Utilities	480,000	480,000	576,784	96,784
Tuition and fees	-	-	6,706	6,706
Earnings on investments	30,000	30,000	38,282	8,282
Other local revenues	17,400	17,400	23,240	5,840
Intergovernmental – state	6,939,000	6,939,000	9,192,553	2,253,553
TOTAL REVENUES	<u>8,651,400</u>	<u>8,651,400</u>	<u>11,195,365</u>	<u>2,543,965</u>
EXPENDITURES				
Instruction	5,735,973	5,738,859	7,398,194	(1,659,335)
Support services:				
Student	203,418	203,418	193,767	9,651
Instructional staff	182,152	182,152	213,453	(31,301)
District administration	1,295,166	1,245,082	654,987	590,095
School administration	561,023	562,356	548,241	14,115
Business	114,325	114,325	99,595	14,730
Plant operation and management	1,083,870	1,079,651	983,869	95,782
Student transportation	385,887	385,887	471,452	(85,565)
Central office	118,104	118,104	95,395	22,709
Food service	-	-	75,500	(75,500)
Other instructional	-	-	19,766	(19,766)
Facilities acquisition and construction	10,000	10,000	-	10,000
TOTAL EXPENDITURES	<u>9,689,918</u>	<u>9,639,834</u>	<u>10,754,219</u>	<u>(1,114,385)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,038,518)</u>	<u>(988,434)</u>	<u>441,146</u>	<u>1,429,580</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(130,189)	(130,189)	(87,768)	42,421
TOTAL OTHER FINANCING SOURCES (USES)	<u>(130,189)</u>	<u>(130,189)</u>	<u>(87,768)</u>	<u>42,421</u>
NET CHANGE IN FUND BALANCE	(1,168,707)	(1,118,623)	353,378	1,472,001
FUND BALANCE, JULY 1, 2002	<u>1,168,707</u>	<u>1,118,623</u>	<u>1,186,707</u>	<u>68,084</u>
FUND BALANCE, JUNE 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,540,085</u>	<u>\$ 1,540,085</u>

The accompanying notes are an integral part of these financial statements.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2003

<u>ASSETS</u>	<u>Food Service</u>	<u>Day Care</u>	<u>Community Education</u>	<u>Total</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$(101,570)	\$ 7,936	\$ 482	\$ (93,152)
Materials and supplies inventory	32,082	-	-	32,082
Accounts receivable:				
Accounts receivable	15,236	9,803	-	25,039
Intergovernmental – federal	<u>129,858</u>	<u>-</u>	<u>-</u>	<u>129,858</u>
Total current assets	75,606	17,739	482	93,827
<b>NONCURRENT ASSETS</b>				
Capital assets, net	<u>78,248</u>	<u>-</u>	<u>-</u>	<u>78,248</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 153,854</b></u>	<u><b>\$ 17,739</b></u>	<u><b>\$ 482</b></u>	<u><b>\$ 172,075</b></u>
<u><b>LIABILITIES AND NET ASSETS</b></u>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	<u>\$ 6,955</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,955</u>
Total current liabilities	6,955	-	-	6,955
<b>NET ASSETS</b>				
Invested in capital assets	78,248	-	-	78,248
Unrestricted	<u>68,651</u>	<u>17,739</u>	<u>482</u>	<u>86,872</u>
Total net assets	<u>146,899</u>	<u>17,739</u>	<u>482</u>	<u>165,120</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 153,854</b></u>	<u><b>\$ 17,739</b></u>	<u><b>\$ 482</b></u>	<u><b>\$ 172,075</b></u>

The accompanying notes are an integral part of these financial statements.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
Year Ended June 30, 2003

	Food Service	Day Care	Community Education	Total
OPERATING REVENUES				
Tuition and fees	\$ -	\$ 368,377	\$ -	\$ 368,377
Sales	405,025	-	-	405,025
Other operating revenues	-	-	281	281
TOTAL OPERATING REVENUES	<u>405,025</u>	<u>368,377</u>	<u>281</u>	<u>773,683</u>
OPERATING EXPENSES				
Salaries	330,524	273,506	-	604,030
Fringe benefits	44,910	31,137	-	76,047
Purchased services	16,259	853	-	17,112
Supplies and materials	474,464	75,194	128	549,786
Depreciation	6,593	-	-	6,593
Other operating expenses	1,627	165	-	1,792
TOTAL OPERATING EXPENSES	<u>874,377</u>	<u>380,855</u>	<u>128</u>	<u>1,255,360</u>
OPERATING INCOME (LOSS)	<u>(469,352)</u>	<u>(12,478)</u>	<u>153</u>	<u>(481,677)</u>
NON-OPERATING REVENUES (EXPENSES)				
Operating grants-federal	513,985	-	-	513,985
Operating grants-state	12,010	20,099	-	32,109
Interest	8	-	-	8
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>526,003</u>	<u>20,099</u>	<u>-</u>	<u>546,102</u>
NET INCOME (LOSS)	<u>56,651</u>	<u>7,621</u>	<u>153</u>	<u>64,425</u>
NET ASSETS, JULY 1, 2002, AS PREVIOUSLY REPORTED	89,211	10,118	329	99,658
PRIOR PERIOD ADJUSTMENT	<u>1,037</u>	<u>-</u>	<u>-</u>	<u>1,037</u>
NET ASSETS, JULY 1, 2002, AS RESTATED	<u>90,248</u>	<u>10,118</u>	<u>329</u>	<u>100,695</u>
NET ASSETS, JUNE 30, 2003	<u>\$ 146,899</u>	<u>\$ 17,739</u>	<u>\$ 482</u>	<u>\$ 165,120</u>

The accompanying notes are an integral part of these financial statements.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2003

	Food Service	Day Care	Community Education	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from tuition and fees	\$ -	\$ 369,970	\$ -	\$ 369,970
Cash received from sales	367,775	-	-	367,775
Other cash receipts	-	-	281	281
Cash payments for salaries	(330,524)	(273,506)	-	(604,030)
Cash payments for fringe benefits	(44,910)	(31,137)	-	(76,047)
Cash payments for purchased services	(16,259)	(853)	-	(17,112)
Cash payments for supplies and materials	(474,507)	(79,703)	(128)	(554,338)
Cash payments for other expenses	(1,627)	(165)	-	(1,792)
Net cash provided (used) by operating activities	<u>(500,052)</u>	<u>(15,394)</u>	<u>153</u>	<u>(515,293)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases of capital assets	-	-	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Receipt of interest	8	-	-	8
Receipt of grants	<u>525,995</u>	<u>20,099</u>	<u>-</u>	<u>546,094</u>
Net cash provided (used) by investing activities	<u>526,003</u>	<u>20,099</u>	<u>-</u>	<u>546,102</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	25,951	4,705	153	30,809
<b>CASH AND CASH EQUIVALENTS, JULY 1, 2003</b>	<u>(127,521)</u>	<u>3,231</u>	<u>329</u>	<u>(123,961)</u>
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2003</b>	<u><u>\$(101,570)</u></u>	<u><u>\$ 7,936</u></u>	<u><u>\$ 482</u></u>	<u><u>\$ (93,152)</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$(469,352)	\$ (12,478)	\$ 153	\$(481,677)
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Depreciation	6,593	-	-	6,593
Changes in assets and liabilities:				
Accounts receivable	3,721	1,593	-	5,314

The accompanying notes are an integral part of these financial statements.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
Year Ended June 30, 2003

	<u>Food Service</u>	<u>Day Care</u>	<u>Community Education</u>	<u>Total</u>
Accounts receivable-intergovernmental - federal	(40,970)	-	-	(40,970)
Inventory	6,492	-	-	6,492
Accounts payable	<u>(6,535)</u>	<u>(4,509)</u>	<u>-</u>	<u>(11,044)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>\$(500,051)</u>	 <u>\$ (15,394)</u>	 <u>\$ 153</u>	 <u>\$(515,292)</u>
 SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
 Donated commodities received from federal government				 <u>\$ 20,099</u>

The accompanying notes are an integral part of these financial statements.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2003

	<u>ASSETS</u>	<u>AGENCY</u>
CURRENT ASSETS		
Cash and cash equivalents		\$ 152,683
Receivables		<u>820</u>
TOTAL ASSETS		<u>\$ 153,503</u>
	<u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES		
Accounts payable		\$ 2,730
Due to students		<u>150,773</u>
TOTAL LIABILITIES		<u>153,503</u>
NET ASSETS		<u>-</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 153,503</u>

The accompanying notes are an integral part of these financial statements.



CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies that affect the significant elements of the Corbin Independent School District are summarized as follows:

**REPORTING ENTITY**

The Corbin Independent Board of Education (Board), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Corbin Independent School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB pronouncement since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Corbin Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statement of the following organization is included in the accompanying financial statements:

**CORBIN INDEPENDENT SCHOOL DISTRICT FINANCE CORPORATION**

The Corbin Independent Board of Education resolved to authorize the establishment of the Corbin Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Board Act and KRS 273 and KRS Section 58.180) as an agency of the District for financing the costs of school building facilities. The Board members of the Corbin Independent Board of Education also comprise the corporation's Board of Directors.

**BASIS OF PRESENTATION**

Government-Wide Financial Statements: The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between governmental and business-type activities of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service,

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements: Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund's operating statements present increases (e.g., revenues) and decreases (expenses) in net total assets.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 43 through 45. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by the Proprietary Fund).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

(D) Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Funds)

- (A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contributions of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

- (B) The Day Care Fund is used to account for the day care operations of the District. The Day Care Fund is a major fund.
- (C) The Community Education Fund is used to account for community education provided by the District.

III. Fiduciary Fund Type (Agency Funds)

- (A) The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either modified accrual for governmental funds or accrual basis for proprietary and fiduciary funds.

Revenues, Exchange and Non-exchange Transactions: Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recognized in the fiscal year when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period of the District is sixty days after year-end.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue: The District reports deferred revenue on its statement of net assets and governmental funds balance sheet. In both the government-wide and governmental fund statements, grants that are intended to finance future periods are reported as deferred revenue. In subsequent periods, the liability for deferred revenue is removed from the statement of net assets and governmental funds balance sheet and revenue is recognized.

Expenditures/Expenses: On the accrual basis of accounting, expenses are recorded at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. The cash and investment pool has the same characteristics as demand deposits. Each fund type's portion of this pool is displayed in the financial statements as cash and cash equivalents in that fund. The District utilizes a financial institution to service bonded debt as principal and interest payments come due. The monies are either maintained in a central bank account or used to purchase legal investments.

It is the policy of the District to value investment contracts and money market investments with a maturity of one year or less at the time of purchase at cost or amortized cost. Investment contracts and money market investments that had a remaining maturity of greater than one year at the time of purchase are reported at fair value.

The Kentucky Revised Statutes authorized the District to invest in United States and State of Kentucky bonds, notes and other obligations; bank certificates of deposit; banker's acceptances; and commercial paper notes rated prime and issued by United States corporations. It is the District's policy to invest in all of the above types of investments. Under existing Kentucky statutes, all investment earnings accrue to the general and food service funds except certain trust funds and those funds individually authorized by Board resolution.

PREPAID ASSETS

Payments made that will benefit periods beyond June 30, 2003 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

INVENTORY

On government-wide financial statements, inventories are presented at cost or using the first in, first out (FIFO) method and are expensed when used.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

On fund financial statements, inventories are value at cost while inventories of proprietary funds are stated at lower of cost or market. For all funds, cost is determined using the FIFO method, and are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time of purchase. Reported inventories in these funds are equally offset by a fund balance reserve, which indicates they do not represent available spendable resources. Inventories of proprietary funds consist of donated and purchased food.

**CAPITAL ASSETS AND DEPRECIATION**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by proprietary funds are reported on both statement types.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District follows the policy of not capitalizing assets with a cost of less than \$1,000 with the exception of assets acquired with Technology Funds, which there is no threshold, and a useful life of less than 1 year. The District does not possess any infrastructure.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both governmental fund capital assets and proprietary fund capital assets:

<u>Description</u>	<u>Useful Life</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
General equipment	7 years

**INTERFUND ACTIVITY**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Sales of goods and services between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

On fund financial statements, short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the statement of net assets, except for amounts due between governmental and business-type activities, which are presented as internal balances.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCUMULATED UNPAID SICK LEAVE BENEFITS

Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30 by those employees who are currently eligible to receive termination payments and those employees for whom it is probable they will become eligible to receive termination benefits in the future. The criteria for determining the vacation and sick leave liability is derived from Board policy, negotiated agreements, and state laws.

The entire compensated absences liability is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability is not recorded. For proprietary funds, the entire amount of compensated absences is recorded as an expense and liability of the fund.

ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

The District recognizes as revenues and expenses contributions made by the State of Kentucky for health insurance and flexible spending accounts on behalf of the District's employees. In fiscal year 2003, the State made contributions of \$2,019,971.

ACCRUED LIABILITIES AND LONG-TERM DEBT

All accrued liabilities and long-term debt are reported in the government-wide financial statements as well as the proprietary fund financial statements.

For governmental fund financial statements, the accrued liabilities are generally reported as a governmental fund liability if due for payment as of the balance sheet date regardless of whether they will be liquidated with current financial resources. However, claims and judgments and compensated absences paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources. Long-term debt paid from governmental funds is not recognized as a liability in the fund financial statements until due.

GOVERNMENTAL FUND BALANCE RESERVES

The District records reservations for portions of governmental fund balances which are legally segregated for specific future use or which do not represent available spendable resources and therefore not available for appropriation. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Reservations of fund balance are established for sick leave, debt service and capital projects.

RESTRICTED RESOURCES

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools and tuition and fees charged for day care operations.

CONTRIBUTIONS OF CAPITAL

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

BUDGETARY PROCESS

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than U.S. Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For the fiscal year ended June 30, 2003, the District implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments".

GASB 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements, which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

**NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE (CONTINUED)**

The District made several changes in accounting principles during the year. For governmental activities, they began recording the current portion of the accumulated sick leave liability, removed long-term investments not to be used for current expenditures, and began accounting for technology fund revenues in the special revenue fund. These changes bring the District's funds into compliance with the fund classifications and requirements of GASB 34.

Restatement of Fund Balance: The restatement for the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance, June 30, 2002	\$ 1,186,707	\$ -	\$ 135,572	\$ 1,322,279
Record beginning accumulated sick leave	<u>(221,325)</u>	<u>-</u>	<u>-</u>	<u>(221,325)</u>
Adjusted fund balance, June 30, 2002	965,382	-	135,572	1,100,954
GASB 34 adjustments:				
Capital assets, net of depreciation	7,589,910	-	-	7,589,910
Long-term liabilities	<u>(6,190,000)</u>	<u>-</u>	<u>-</u>	<u>(6,190,000)</u>
Governmental activities net assets, June 30, 2002	<u>\$ 2,365,292</u>	<u>\$ -</u>	<u>\$ 135,572</u>	<u>\$ 2,500,864</u>

The District had a fixed asset inventory taken to comply with GASB 34. This inventory revealed the existence of proprietary fixed assets that have not previously been recorded on the books. Changes as a result of the GASB 34 implementation are as follows:

	<u>Food Service</u>	<u>Day Care</u>	<u>Community Education</u>	<u>Total</u>
Net assets, June 30, 2002	\$ 89,211	\$ 10,118	\$ 329	\$ 99,658
Additional fixed assets	<u>1,037</u>	<u>-</u>	<u>-</u>	<u>1,037</u>
Adjusted net assets, June 30, 2002	<u>\$ 90,248</u>	<u>\$ 10,118</u>	<u>\$ 329</u>	<u>\$ 100,695</u>

As proprietary funds are already on the accrual basis, no adjustments are necessary for the Statement of Net Assets.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation insurance.

Under the depository contract, the District, at its own discretion, invests funds in time deposits and certificates of deposit provided by the depository bank at interest rates approximating United States Treasury Bill rates.



CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

**NOTE 3 – CASH AND CASH EQUIVALENTS (CONTINUED)**

At June 30, 2003, the carrying amount of the District's deposits (cash and certificates of deposit) was \$1,266,816 and the bank balance was \$2,252,793. The entire bank balance throughout the year was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

The deposits were deemed collateralized under Kentucky Law during the year and the District maintains copies of all safekeeping receipts. The following is disclosed:

- a. Name of banks utilized during fiscal year: Bank of Corbin and Tri-County National Bank.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$3,052,000.
- c. Largest cash, savings and time deposit combined account balance amounted to \$3,413,965 and occurred during the month of February.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$100,000.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risk are as follows:

- |            |   |
|------------|---|
| Category 1 | Deposits, which are insured or collateralized with securities, held by the District or by its agent in the District's name.                       |
| Category 2 | Deposits, which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. |
| Category 3 | Deposits, which are not collateralized or insured.  |

Based on these three levels of risk, all of the District's cash deposits are classified as Category 1 and Category 2.

**NOTE 4 – PROPERTY TAXES**

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. The assessed value of the certified roll, upon which the levy for the 2003 fiscal year was based, was \$395,272,020. The tax rates assessed for the year ended June 30, 2003 to finance general fund operations were \$.367 per \$100 valuation for real estate and \$.413 for tangible property. The District committed \$.054 of the levy to the FSPK Fund. Taxes are due on October 1, and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2003 were eighty-seven percent of the tax levy. Delinquent taxes are allocated to the general fund. The District records taxes receivable only for the amounts collected during the next sixty days from its fiscal year end.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

NOTE 4 – PROPERTY TAXES (CONTINUED)

At June 30, 2003, the components of taxes receivable were as follows:

PSC property tax	\$ 1,430
Motor vehicle	16,319
General property tax	11,504
Utilities tax	<u>42,267</u>
	<u>\$ 71,520</u>

NOTE 5 – RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (rent and student fees), interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

NOTE 6 – CAPITAL ASSETS

A summary of capital asset activity during the fiscal year follows:

	Balance <u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2003</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Land	\$ 334,122	\$ 40,585	\$ -	\$ 374,707
Land improvements	1,478,800	16,420	-	1,495,220
Buildings and improvements	11,919,705	-	-	11,919,705
Technology equipment	1,043,930	120,621	-	1,164,551
Vehicles	934,770	80,886	-	1,015,656
General equipment	<u>172,939</u>	<u>51,582</u>	-	<u>224,521</u>
Totals at cost	<u>15,884,266</u>	<u>310,094</u>	-	<u>16,194,360</u>
Less accumulated depreciation:				
Land improvements	864,176	72,535	-	936,711
Buildings and improvements	5,921,015	327,178	-	6,248,193
Technology equipment	793,283	163,627	-	956,910
Vehicles	600,845	51,559	-	652,404
General equipment	<u>115,037</u>	<u>10,479</u>	-	<u>125,516</u>
Total accumulated depreciation	<u>8,294,356</u>	<u>625,378</u>	-	<u>8,919,734</u>
Governmental activities capital assets, net	<u>\$ 7,589,910</u>	<u>\$(315,284)</u>	<u>\$ -</u>	<u>\$ 7,274,626</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Food service equipment	\$ 294,669	-	-	\$ 294,669
Technology equipment	<u>8,397</u>	-	-	<u>8,397</u>
Totals at cost	<u>303,066</u>	-	-	<u>303,066</u>

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	Balance <u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2003</u>
Less accumulated depreciation:				
Technology equipment	8,397	-	-	8,397
Food service equipment	<u>209,828</u>	<u>6,593</u>	-	<u>216,421</u>
Total accumulated depreciation	<u>218,225</u>	<u>6,593</u>	-	<u>224,818</u>
Business-type activities capital assets, net	<u>\$ 84,841</u>	<u>\$ (6,593)</u>	<u>\$ -</u>	<u>\$ 78,248</u>

Depreciation expense was allocated to governmental functions as follows

Instruction	\$ 531,826
Support services:	
Student	1,836
Instructional staff	20,530
District administration	12,351
School administration	7,279
Plant operation and management	2,494
Student transportation	47,788
Central office	121
Community services	<u>1,153</u>
Total governmental activities	<u>\$ 625,378</u>

NOTE 7 – BONDED DEBT AND LEASE OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized as follows:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>
1993	\$ 5,435,000	3% to 5.4%
1996	895,000	5.375% to 5.55%
1998A	620,000	4.5
1998B	585,000	4.25% to 4.6%
2001	305,000	5.6%
2002	345,000	3.9% to 4.9%
2003	3,380,000	1.4% to 3.2%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Corbin Independent School District and the Corbin Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

**NOTE 7 – BONDED DEBT AND LEASE OBLIGATIONS (CONTINUED)**

In 1990, the District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

In 2003, the District issued the School Building Refunding Revenue Bonds Series 2002 to refund \$3,165,000 of the 1993 issue in order to reduce future interest payments. The remaining payment on the 1993 Bonds will be paid March 1, 2004. The bond issuance costs of \$33,520 were expensed as incurred.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

Year	Corbin Independent School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2003-04	\$ 561,819	\$ 176,861	\$ 33,181	\$ 39,139	\$ 811,000
2004-05	580,173	150,785	34,827	37,495	803,280
2005-06	598,454	135,338	36,546	35,775	806,113
2006-07	616,657	118,099	38,343	33,979	807,078
2007-08	634,724	99,052	40,276	32,046	806,098
2008-09	582,635	77,679	42,365	29,957	732,636
2009-10	600,444	58,128	44,556	27,765	730,893
2010-11	617,927	37,187	47,073	25,467	727,654
2011-12	45,342	15,426	44,658	23,048	128,474
2012-13	43,434	12,979	46,566	20,703	123,682
2013-14	45,992	10,489	49,008	18,261	123,750
2014-15	48,418	7,854	51,582	15,687	123,541
2015-16	55,683	5,049	54,317	12,950	127,999
2016-17	53,223	2,008	51,777	10,225	117,233
2017-18	4,497	501	40,503	7,829	53,330
2018-19	2,372	281	42,628	5,704	50,985
2019-20	107	164	44,893	3,441	48,605
2020-21	3,247	159	21,753	1,066	26,225
	<u>\$ 5,095,148</u>	<u>\$ 908,039</u>	<u>\$ 764,852</u>	<u>\$ 380,537</u>	<u>\$ 7,148,576</u>

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

**NOTE 8 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the workers' compensation fund is based on premium rates established by such funds in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term. The liability insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro-rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund, however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated, which includes workers' compensation insurance.

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency). There were no instances of noncompliance noted.

**NOTE 9 – RETIREMENT PLANS**

Certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). Funding for the Plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 6.34% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$9,519,933. The payroll for employees covered under KTRS was \$7,278,412 and for CERS was \$1,847,195.

The contribution requirement for CERS for the year ended June 30, 2003 was \$209,459, which consisted of \$117,105 from the Board and \$92,354 from the employees. The Board paid \$91,749 from federal grant monies to KTRS in matching contributions for federally funded employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2003

NOTE 9 – RETIREMENT PLANS (CONTINUED)

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS <u>June 30, 2002</u>	CERS <u>June 30, 2002</u>
Assets available for benefits, at fair value	\$ 7,030,468,498	\$ 6,883,298,951
Pension benefit obligation	<u>6,348,163,928</u>	<u>5,492,646,422</u>
(Underfunded) overfunded pension benefit obligations	<u>\$ 682,304,570</u>	<u>\$ 1,390,652,529</u>

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due in presented in their June 30, 2002 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE 10 – CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

A lawsuit styled David Brian Hale vs. Pattie Smith and the Corbin Independent Board of Education is pending in the Whitley Circuit Court. This case is based upon an accident resulting in an injury to David Hale, a student. This case is being handled by the school's insurance carrier and the ultimate outcome is not known at this time.

On June 19, 2002, Angela Earls asserted a claim against the Corbin Independent School District resulting from a vehicle accident involving a District bus on or about May 1, 2002. This claim is being handled by the District's insurance carrier and the ultimate outcome is not known at this time.

No provision was made in the accompanying financial statements for any contingent liabilities.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2003

NOTE 11 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated, which includes workers' compensation insurance.

NOTE 12 – DEFICIT OPERATING/FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds had operations that resulted in current year operating deficits resulting in a corresponding reduction in fund balances:

Construction Fund	<u>\$(28,231)</u>
Debt Service Funds	<u>\$ (1,253)</u>

NOTE 13 – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	1	Debt Service	Debt service requirement	\$ 72,780
Operating	1	2	Matching, Phase II	14,988
Operating	320	Debt Service	Debt service requirement	530,439
Operating	310	Debt Service	Debt service requirement	120,472
Operating	310	Construction Fund	Capital Projects	74,188

NOTE 14 – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2003.

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2003

	Seek Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Funds	Total Nonmajor Governmental Funds
ASSETS AND RESOURCES					
Cash and cash equivalents	\$ -	\$ -	\$ 68,143	\$ 40,034	\$ 108,177
Other current assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND RESOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,143</u>	<u>\$ 40,034</u>	<u>\$ 108,177</u>
LIABILITIES AND FUND BALANCES					
Accounts payable	\$ -	\$ -	\$ 2,089	\$ -	\$ 2,089
Reserved for capital projects	-	-	66,054	-	66,054
Reserved for debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,034</u>	<u>40,034</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,143</u>	<u>\$ 40,034</u>	<u>\$ 108,177</u>



CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2003

	Seek Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Funds	Total Nonmajor Governmental Funds
REVENUES					
From local sources:					
Taxes:					
Property	\$ -	\$ 197,636	\$ -	\$ -	\$ 197,636
Earnings on investments	-	-	666	9,247	9,913
Intergovernmental – state	<u>194,660</u>	<u>332,803</u>	<u>-</u>	<u>72,321</u>	<u>599,784</u>
TOTAL REVENUES	<u>194,660</u>	<u>530,439</u>	<u>666</u>	<u>81,568</u>	<u>807,333</u>
EXPENDITURES					
Facilities acquisition and construction	-	-	103,085	-	103,085
Bond issuance costs	-	-	-	33,520	33,520
Payment of bonds	-	-	-	3,710,000	3,710,000
Payment of interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>409,499</u>	<u>409,499</u>
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>103,085</u>	<u>4,153,019</u>	<u>4,256,104</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>194,660</u>	<u>530,439</u>	<u>(102,419)</u>	<u>(4,071,451)</u>	<u>(3,448,771)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of bonds	-	-	-	3,346,507	3,346,507
Operating transfers in	-	-	74,188	723,691	797,879
Operating transfers out	<u>(194,660)</u>	<u>(530,439)</u>	<u>-</u>	<u>-</u>	<u>(725,099)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(194,660)</u>	<u>(530,439)</u>	<u>74,188</u>	<u>4,070,198</u>	<u>3,419,287</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	-	(28,231)	(1,253)	(29,484)
FUND BALANCES, JULY 1, 2002	<u>-</u>	<u>-</u>	<u>94,285</u>	<u>41,287</u>	<u>135,572</u>
FUND BALANCES, JUNE 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,054</u>	<u>\$ 40,034</u>	<u>\$ 106,088</u>

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
CORBIN HIGH SCHOOL  
Year Ended June 30, 2003

	Cash Balances <u>July 1, 2002</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	Cash Balances <u>June 30, 2003</u>
ACCOUNTS:					
9 <sup>th</sup> Grade Wing	\$ 272	\$ -	\$ 435	\$ 163	\$ -
Academic Boosters	2,558	2,343	3,726	-	1,175
Academic Club	320	773	499	-	594
Annual	7,651	6,941	10,332	-	4,260
Art Class	21	70	-	-	91
Art Club	450	1,014	532	(100)	832
Athletics	23,227	116,223	137,780	2,000	3,670
Auditorium	24,235	-	2,054	-	22,181
Auditorium Rent	150	500	350	-	300
Band	224	2,757	2,548	-	433
Baseball Field	-	10,020	10,020	-	-
Beta Club	941	2,469	2,357	-	1,053
Book Rental	11,683	12,975	14,800	-	9,858
Bookstore	878	-	-	(878)	-
Boys Camp	6,569	16,137	19,728	-	2,978
Boys Golf	2,716	850	1,659	-	1,907
Choir	336	932	1,180	-	88
Cross Country	120	800	100	-	820
Dance Team	-	27,179	26,558	(621)	-
Dawn Allen	162	-	158	-	4
Equipment Room	1,159	751	2,285	510	135
FACS	649	481	593	500	1,037
FBLA	81	518	523	-	76
FCA	50	880	660	-	270
FCCLA	1,335	2,900	2,918	(500)	817
Flower Fund	-	-	30	30	-
Football Camp	3,239	5,330	6,241	(510)	1,818
General Fund	1,306	26,623	28,074	437	292
Girls Camp	1,029	9,132	9,560	-	601
Girls Golf	695	702	670	-	727
Greenhouse	291	-	-	-	291
Guidance	169	4,608	4,464	-	313
JAG	149	963	1,355	243	-
Junior Class	100	5,500	5,271	250	579
JV Cheerleaders	1,145	12,610	13,540	-	215
KJHS	-	15	15	-	-
Key Club	133	400	400	-	133
Library	218	-	85	-	133
Lost/Damaged Books	188	21	-	-	209
Media	323	170	269	-	224
Memory Makers	30	-	-	-	30
National Honor Society	357	4,410	4,541	-	226
Outdoor Classroom	47	-	45	-	2

Accounts Receivable June 30, <u>2003</u>	Accounts Payable June 30, <u>2003</u>	Fund Balances June 30, <u>2003</u>
\$ -	\$ -	\$ -
-	-	1,175
-	-	594
-	-	4,260
-	-	91
-	-	832
-	-	3,670
-	-	22,181
-	-	300
-	-	433
-	-	-
-	-	1,053
-	-	9,858
-	-	-
-	1,203	1,775
-	-	1,907
-	-	88
-	-	820
-	-	-
-	-	4
-	-	135
-	-	1,037
-	-	76
-	-	270
-	-	817
-	-	-
-	-	1,818
211	-	503
-	-	601
-	-	727
-	-	291
-	-	313
-	-	-
-	-	579
-	-	215
-	-	-
-	-	133
-	-	133
-	-	209
-	-	224
-	-	30
-	-	226
-	-	2

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES (CONTINUED)  
CORBIN HIGH SCHOOL  
Year Ended June 30, 2003

	Cash Balances <u>July 1, 2002</u>	<u>Receipts</u>	<u>Disbursements</u>	Interfund <u>Transfers</u>	Cash Balances <u>June 30, 2003</u>
Pep Club	94	1,700	1,538	-	256
Practice Field	27	3,000	103	(2,000)	924
Project Prom	-	2,078	1,988	-	90
Project We Care	-	2,233	2,230	-	3
Redhound Productions	-	7,466	4,186	375	3,655
ROTC	1,199	6,263	6,251	-	1,211
SADD	439	-	-	-	439
Science Class	2	391	1,410	1,019	2
Senior Class	805	-	153	(652)	-
Senior Science	10	36,373	36,319	-	64
Softball	2,782	1,375	3,216	-	941
Speech and Drama	1,826	1,376	1,939	-	1,263
Student Council	936	2,524	2,383	(275)	802
Teachers' Lounge	113	703	723	-	93
Teachers' Lounge #2	114	364	433	-	45
Tech Ed	-	1,179	1,258	79	-
Tennis-Boys	1,046	626	1,047	-	625
Tennis-Girls	1,198	1,260	1,945	-	513
Track	176	3,510	2,892	-	794
TSA	14	-	100	86	-
Volleyball	775	4,618	3,700	-	1,693
Weight Room	626	1,000	255	-	1,371
Youth Service Center	-	1,416	1,259	(157)	-
YSC Project	-	1,965	1,966	1	-
Totals	<u>\$ 107,388</u>	<u>\$ 359,417</u>	<u>\$ 393,649</u>	<u>\$ -</u>	<u>\$ 73,156</u>

Accounts Receivable June 30, <u>2003</u>	Accounts Payable June 30, <u>2003</u>	Fund Balances June 30, <u>2003</u>
-	-	256
-	-	924
-	-	90
-	-	3
-	-	3,655
-	-	1,211
-	-	439
-	-	2
-	-	-
-	-	64
-	-	941
-	-	1,263
-	-	802
-	-	93
-	-	45
-	-	-
-	-	625
-	-	513
-	-	794
-	-	-
-	-	1,693
-	-	1,371
-	-	-
-	-	-
<u>\$ 211</u>	<u>\$ 1,203</u>	<u>\$ 72,164</u>

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
CORBIN MIDDLE SCHOOL  
Year Ended June 30, 2003

	Cash Balances <u>July 1, 2002</u>	<u>Receipts</u>	<u>Disbursements</u>	Cash Balances <u>June 30, 2003</u>
ACCOUNTS: All funds	<u>\$ 37,661</u>	<u>\$ 142,096</u>	<u>\$ 145,788</u>	<u>\$ 33,969</u>

Accounts Receivable	Accounts Payable	Fund Balances
June 30, <u>2003</u>	June 30, <u>2003</u>	June 30, <u>2003</u>
<u>\$ 110</u>	<u>\$ 300</u>	<u>\$ 33,779</u>

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
CENTRAL PRIMARY SCHOOL  
Year Ended June 30, 2003

	Cash Balances <u>July 1, 2002</u>	<u>Receipts</u>	<u>Disbursements</u>	Cash Balances <u>June 30, 2003</u>
ACCOUNTS: All funds	<u>\$ 28,277</u>	<u>\$ 62,557</u>	<u>\$ 62,869</u>	<u>\$ 27,965</u>



Accounts Receivable June 30, <u>2003</u>	Accounts Payable June 30, <u>2003</u>	Fund Balances June 30, <u>2003</u>
<u>\$ 251</u>	<u>\$ 965</u>	<u>\$ 27,251</u>

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
SOUTH ELEMENTARY SCHOOL  
Year Ended June 30, 2003

	Cash Balances <u>July 1, 2002</u>	<u>Receipts</u>	<u>Disbursements</u>	Cash Balances <u>June 30, 2003</u>
ACCOUNTS: All funds	<u>\$ 9,430</u>	<u>\$ 32,239</u>	<u>\$ 25,053</u>	<u>\$ 16,616</u>

Accounts Receivable June 30, <u>2003</u>	Accounts Payable June 30, <u>2003</u>	Fund Balances June 30, <u>2003</u>
<u>\$ 118</u>	<u>\$ 262</u>	<u>\$ 16,472</u>

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
CORBIN EAST  
Year Ended June 30, 2003

	Cash Balances <u>July 1, 2002</u>	<u>Receipts</u>	<u>Disbursements</u>	Cash Balances <u>June 30, 2003</u>
ACCOUNTS: All funds	<u>\$ 479</u>	<u>\$ 3,858</u>	<u>\$ 3,360</u>	<u>\$ 977</u>

Accounts Receivable June 30, <u>2003</u>	Accounts Payable June 30, <u>2003</u>	Fund Balances June 30, <u>2003</u>
<u>\$ 130</u>	<u>\$ -</u>	<u>\$ 1,107</u>

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2003

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award	Federal Disbursements
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Chapter I	84.010	35103-01	\$ 523,992	\$ 397,197 *
Chapter I	84.010	35102-01	463,028	121,970 *
Chapter I – Multi-District	84.010	35103-01	9,990	9,990 *
Chapter I – Multi-District	84.010	35102-01	4,468	721 *
Chapter I – Whitley Day Treatment	84.013	31990-04	13,231	13,231
Innovative Education Program Strategies	84.298	53303-02	15,838	12,712
Innovative Education Program Strategies	84.298	53302-02	12,625	944
Eisenhower Professional Development State Grants	84.281	53002-03	16,250	1,239
Safe and Drug-Free Schools and Communities – State Grants	84.186	59003-02	16,984	15,568
Safe and Drug-Free Schools and Communities – State Grants	84.186	59001-02	14,837	6,805
Special Education – Grants to States (IDEA, Part B)	84.027	58103-02	268,103	224,307
Special Education – Grants to States (IDEA, Part B)	84.027	58102-02	231,596	36,359
Special Education – Grants to States (IDEA, Part B)	84.027	58102-03	29,061	29,061
Special Education – Preschool Grants (IDEA Preschool)	84.173	58703-02	15,129	13,236
Special Education – Preschool Grants (IDEA Preschool)	84.173	58701-02	15,314	3,691
Technical Literacy Challenge Fund Grants	84.318	73603-02	15,069	15,069
Technical Literacy Challenge Fund Grants	84.318	73601-02	19,948	103
Vocational Education – Basic Grants to States	84.048	46203-32	24,965	24,965
Vocational Education – Basic Grants to States	84.048	46202-32	44	44

\* Denotes major program

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
Year Ended June 30, 2003

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award	Federal Disbursements
Teacher and Principal Training and Recruiting	84.367A	71003-02	143,800	127,248
Even Start Family Literacy	84.213	58803-02	98,240	80,717
Class Size Reduction	84.340	53402-01	95,911	7,935
Twenty-First Century Community Learning Centers	84.287A	-	365,000	203,876 *
Twenty-First Century Community Learning Centers	84.287	74403-03	78,824	14,042 *
Rural and Low-Income School Program	84.358B	35003-02	39,751	<u>39,751</u>
Total U.S. Department of Education				<u>\$ 1,400,781</u>
<u>U.S. Department of Labor</u>				
Passed through State Department of Education:				
Jobs for Adult Grads	17.255	-	9,700	\$ 9,700
Jobs for Adult Grads	17.250	-	104,100	70,412
Jobs for Adult Grads	17.3259	27302-A-Z	24,000	<u>24,000</u>
Total U.S. Department of Labor				<u>\$ 104,112</u>
<u>U.S. Department of Agriculture</u>				
Passed through State Department of Education:				
National School Breakfast Program	10.553	57602-05	20,431	\$ 87,021 *
		57603-05	66,590	
National School Lunch Program	10.555	57502-02	58,360	299,335 *
		57503-02	228,965	
		57503-08	12,010	
Summer Food Service Program for Children	10.559	57402-23	93,321	139,639 *
		57403-23	36,667	
		56902-24	9,651	
Cash for Commodities	10.558	58002-16	333	1,744 *
		58003-16	1,411	

\* Denotes major program

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
Year Ended June 30, 2003

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award	Federal Disbursements
Child Care	10.558	57902-21 57903-21	4,533 13,822	18,355 *
Total U.S. Department of Agriculture				<u>\$ 546,094</u>
<u>National Oceanic and Atmospheric Administration</u>				
PRIDE	11.469	EF-2703B		\$ 3,380
PRIDE	11.469	EF-2703C		<u>3,071</u>
Total National Oceanic and Atmospheric Administration				<u>\$ 6,451</u>
Total Expenditures of Federal Awards				<u>\$ 2,057,438</u>

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Corbin Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in this schedule at the fair market value of the commodities received and disbursed.

\* Denotes major program



CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2003

SUMMARY OF AUDIT RESULTS

1. We have issued an unqualified opinion on the basic financial statements of the Corbin Independent School District.
2. No reportable conditions were disclosed in our audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No reportable conditions were disclosed in our audit of internal control over major programs.
5. We have issued an unqualified opinion on compliance for major programs.
6. The audit did not disclose any audit findings, which we are required to report under Section .510(a) of A-133.
7. The programs tested as major programs included:

Chapter 1	84.010
National School Lunch Program	10.555
National School Breakfast Program	10.553
Cash for Commodities/Child Care	10.558
Summer Food Service Program for Children	10.559
21 <sup>st</sup> Century Community Learning	84.287A

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Corbin Independent School District was determined to be a low risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2003

All prior audit findings regarding the Corbin Independent School District's activity funds were corrected in the current year.

August 27, 2003

Members of the Board of Education  
Corbin Independent School District  
Corbin, Kentucky

We have audited the financial statements of the Corbin Independent School District as of and for the year ended June 30, 2003, and have issued our report thereon dated August 27, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and state audit requirements.

#### Compliance

As part of obtaining reasonable assurance about whether the Corbin Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards or state audit requirements.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corbin Independent School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the members of the Kentucky State Committee for School District Audits, the members of the Board of Education of the Corbin Independent School District, the Kentucky Department of Education management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountants

August 27, 2003

Members of the Board of Education  
Corbin Independent School District  
Corbin, Kentucky

#### Compliance

We have audited the compliance of the Corbin Independent School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The Corbin Independent School District's major federal programs are identified in the accompanying schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Corbin Independent School District's management. Our responsibility is to express an opinion on the Corbin Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and state audit requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corbin Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corbin Independent School District's compliance with those requirements.

In our opinion, the Corbin Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in section 3(9)(a)-(w) of the Guide for Auditing Local School Districts' Fiscal Records that are required to be reported under Government Auditing Standards.

#### Internal Control Over Compliance

The management of the Corbin Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Corbin Independent School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the members of the Kentucky State Committee for School District Audits, the members of the Board of Education of the Corbin Independent School District, the Kentucky Department of Education management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountants

August 27, 2003

Members of the Board of Education  
Corbin Independent School District  
Corbin, Kentucky

In planning and performing our audit of the financial statements of the Corbin Independent School District for the year ended June 30, 2003, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit, we became aware of no matters that are required to be noted. This letter does not affect our report dated August 27, 2003 on the financial statements of the Corbin Independent School District.

Certified Public Accountants

CORBIN INDEPENDENT SCHOOL DISTRICT  
Corbin, Kentucky

MANAGEMENT LETTER POINTS  
June 30, 2003

NONE